

**DEPARTMENT OF WATER RESOURCES**

California Energy Resources Scheduling  
PO Box 219001  
3310 El Camino Avenue, Suite 120  
SACRAMENTO, CA 95821-9001  
(916) 574-1291



November 19, 2002

Mr. Terry M. Winter, President and Chief Executive Officer  
California Independent System Operator  
151 Blue Ravine Road  
Folsom, California 95630

Dear Mr. Winter:

Under Water Code Section 80260, the California Department of Water Resources ("DWR") will no longer have authority to contract for the purchase of electrical power on and after January 1, 2003.<sup>1</sup> Accordingly, beginning January 1, 2003, DWR will not accept financial responsibility for the purchases made by the California Independent System Operator Corporation ("ISO") as provided in those certain market notices dated January 21, 2001, April 13, 2001, and May 10, 2001 attached hereto.

DWR notes that on October 25, 2002, the California Public Utilities Commission ("CPUC") ordered Southern California Edison Company ("SCE") and Pacific Gas and Electric Company ("PG&E") to take whatever steps necessary to post the required ISO collateral in order to resume scheduling coordination or the procurement of the residual net-short no later than January 1, 2003. The CPUC also directed SCE and PG&E to post the contract and procurement related collateral required to secure resources to meet their load. (See Ordering Paragraph 16 of Decision 02-10-062.)

To facilitate the contemplated transition and to inform the market participants of the above developments, DWR hereby requests that the ISO prepare and send a market notice as to this effect.

Please do not hesitate to contact me at (916) 574-2733 if you have any questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter S. Garriss".

Peter S. Garriss  
Deputy Director

cc: (See attached list.)

<sup>1</sup> Water Code § 80260 provides: "On and after January 1, 2003, the department shall not contract under this division for the purchase of electrical power."

Thomas M. Hannigan, Director,  
Department of Water Resources

Jim Detmers, Vice President, Grid Operations  
California Independent System Operator  
151 Blue Ravine Road  
Folsom, California 95630

Michael Kahn, Chairman  
California Independent System Operator, Board of Governors  
151 Blue Ravine Road  
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Tal Finney, Board Member  
California Independent System Operator, Board of Governors  
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